

Gaurang Shah

**The Indian Finance Sector,
Portfolio Management,
MF and Investment Advisors**

Overview, Present and Future

28th Dec 13

00,000
crore mark

- 
- Financial Sector
 - Current Issues
 - Opportunities in Financial Services



- Financial Sector
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- Opportunities in Financial Services

Constituents



- ❑ **Commercial Banks**
 - ❑ Schedule commercial banks – 151, of which
 - ❑ Public Sector Banks – 25
 - ❑ Private Sector Banks – 20

- ❑ **Insurance**
 - ❑ Life (1+23)
 - ❑ Non Life (4+21) *

- ❑ **Mutual funds**
 - ❑ UTI, LIC & Bank sponsored (9)
 - ❑ Private Sector (18)
 - ❑ Foreign (8)
 - ❑ Private sector Joint Ventures (10)

- ❑ **Pension** – PSU (3) , Private Sector (6)

- ❑ **NBFC** –
 - ❑ Deposit - 254 #
 - ❑ Non Deposit – 11,918 @

Bank source - RBI June 13
Mutual Fund source - AMFI



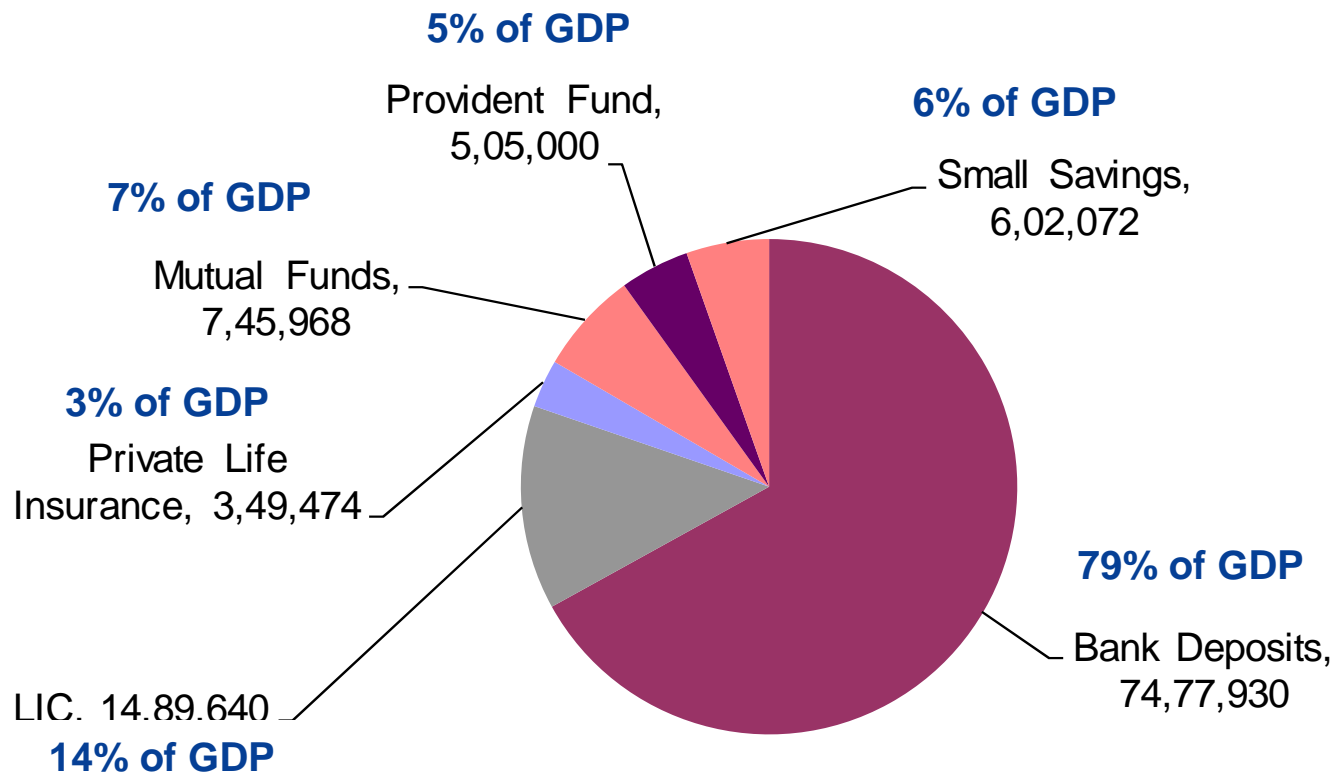
* General insurance companies exclude Export Credit Guarantee Corporation of India Ltd. & Agriculture Insurance Co. of India Ltd.

As on 31st May 2013. Source – RBI website. Excludes 2 RNBC's.

@ As on 30th November 2012. Source – RBI website.

Stock of Financial Savings

Rs. Crs



Bank deposits - as on 29st Nov 13; Source - RBI

Life Insurance - total AUM as on Sep 2013, LIC AUM as on Mar 2013, Private AUM derived as the balancing figure; Source - Life council

Mutual Fund - as on 30st Sep 2013; Source - AMFI

Small Savings - as on Feb 2013;

Provident Fund - as on 30 Nov 13 Source - ET

GDP - 94,61,013 crs at factor cost 2012-13; Source - RBI

Distribution of AUM

Particulars	Rs. Crs.
Bank Deposits	7,477,930
Life Insurance Funds	1,839,114
Mutual Funds	745,968
Small Savings	602,072
Provident Fund	505,000
NBFC*	10,586

Banks	Mix
SBI and associates	22%
Nationalized banks	52%
RRB's	3%
Private banks	18%
Foreign banks	4%

Insurance	Rs. Crs.	Mix
Debt Fixed Income	554,133,440	74%
Equity Others	162,440,118	22%
Balanced	15,218	2%
Others	14,176	2%

Small Savings	Rs. Crs.	Mix
Deposits (Post office, NSS, Senior citizen)	366,884	61%
Certificates (NSC.KVP, IVP)	196,367	33%
PPF	38,821	6%

* Including 2 RNBC's Rs 3,501 Crs

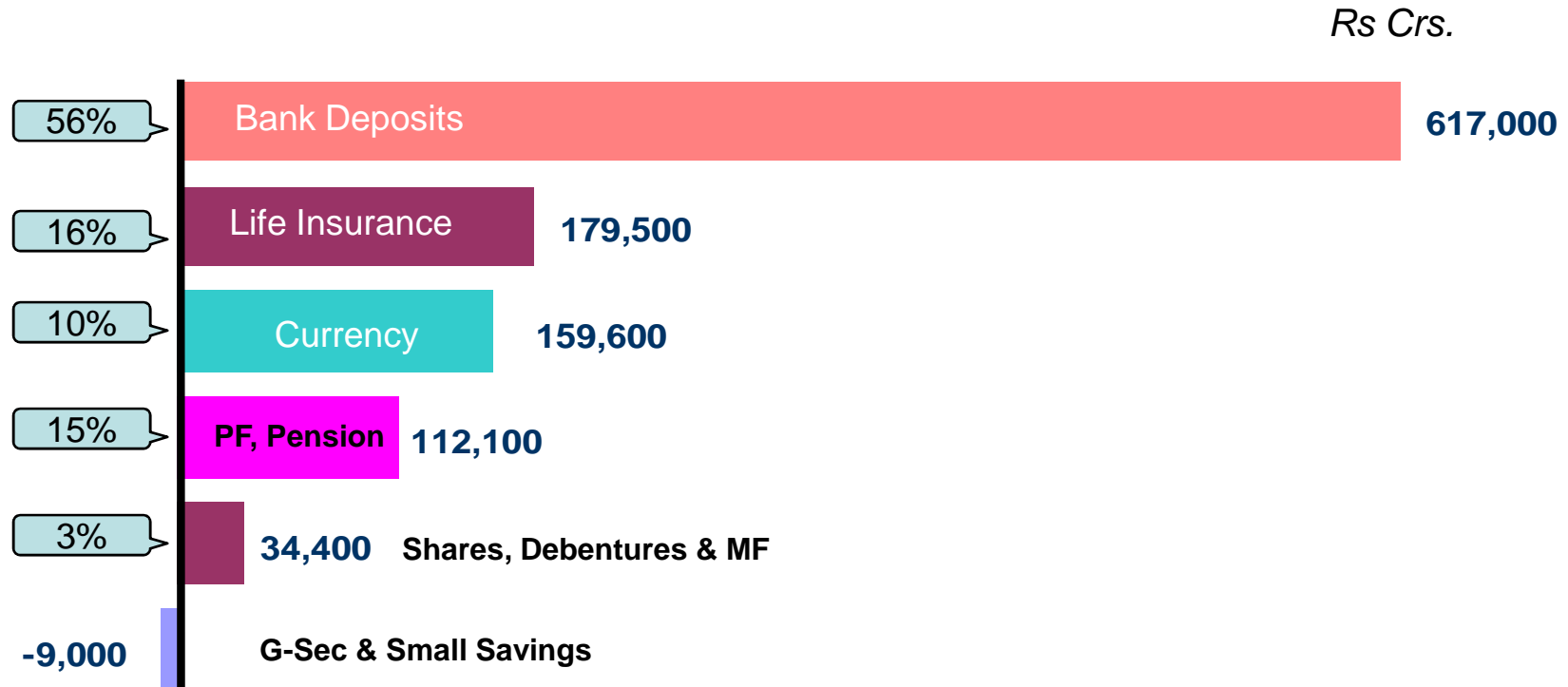
Banks – as on 29th Nov 2013, source RBI; Mix as on Mar 13

MF - as on 30th Sep 2013, source AMFI

PF – as on 30th Nov 2013, source Economic Times

Life Insurance – Life Council as on Sep 13

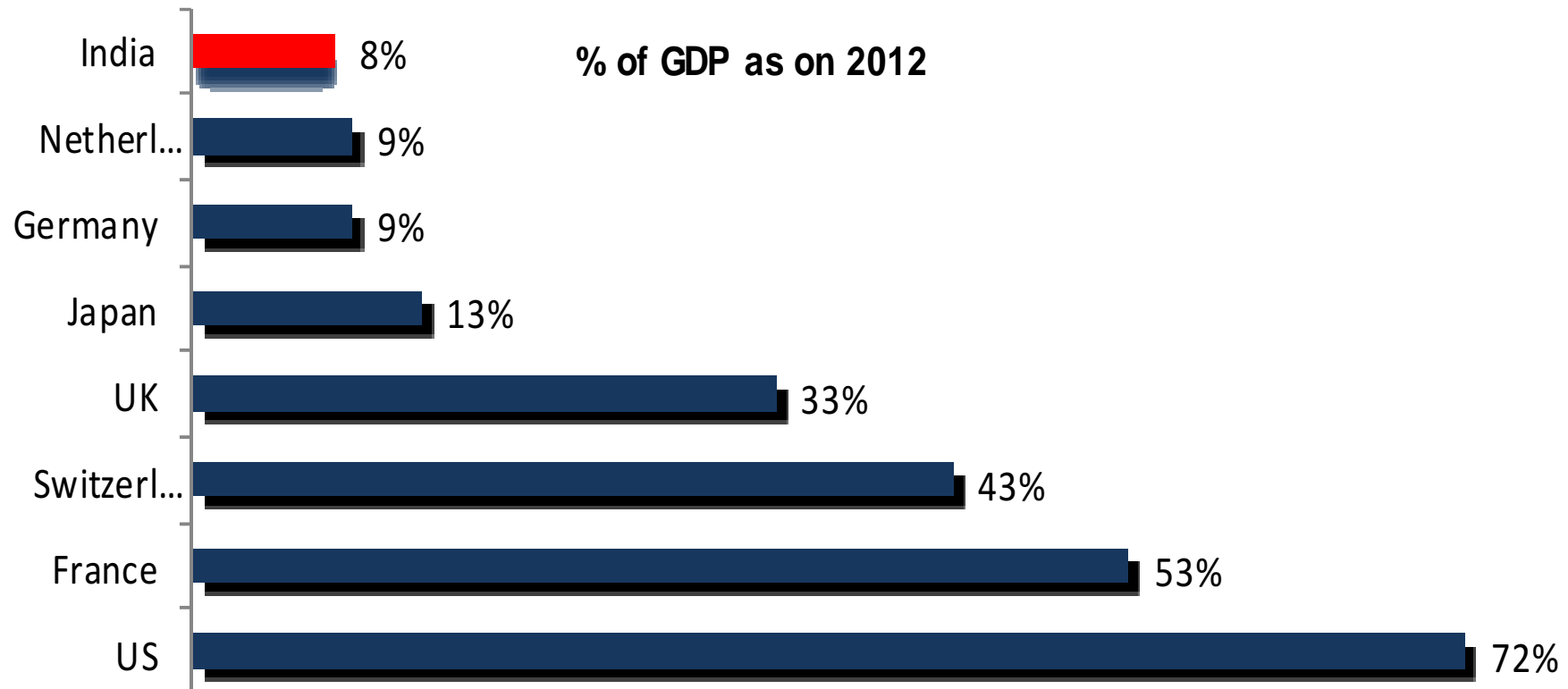
Composition of Financial Savings – FY13



Over 66% of incremental savings are still going into Bank deposits & Currency (FY12 – 64%)

source – RBI annual report 2012-13

Mutual Funds - % of GDP

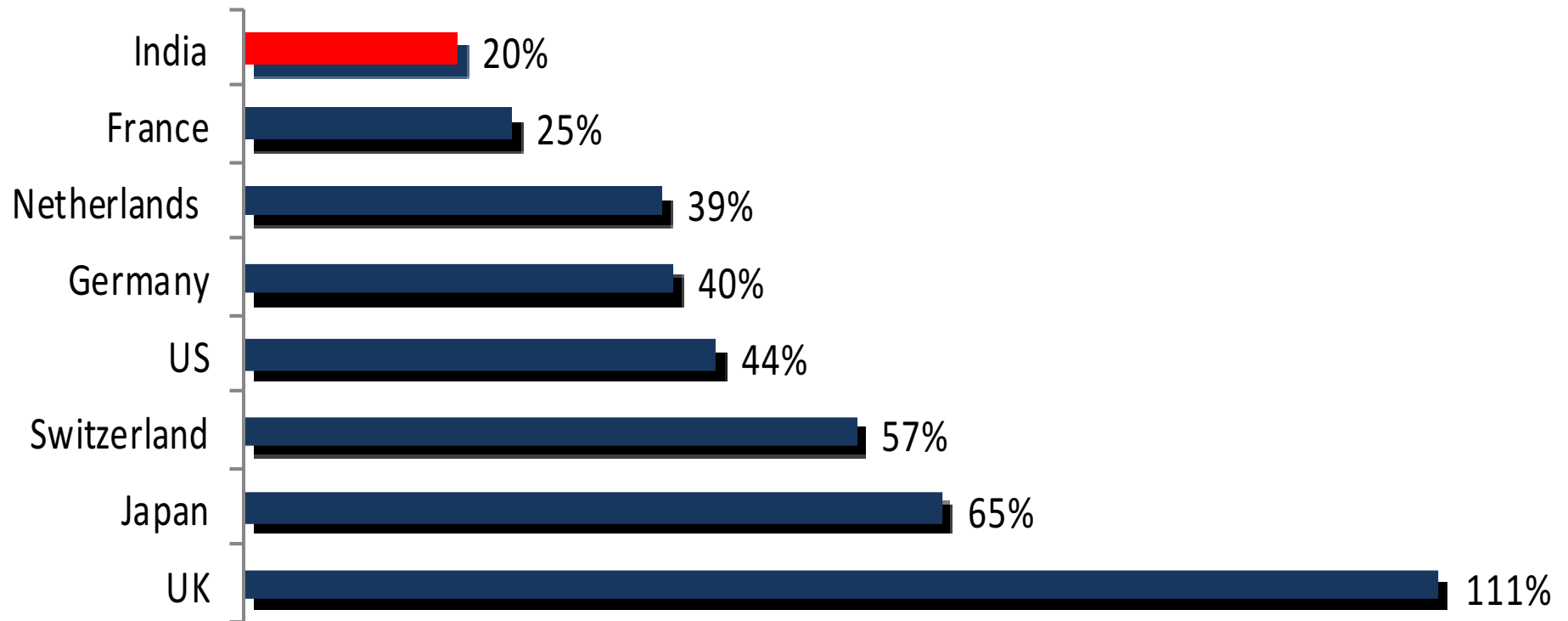


Source: The City UK estimates based on UBS, OECD, SwissRe, Investment Company Institute data
GDP Source: India - RBI website; Other countries – Work Bank 2012

Insurance AUM - % of GDP

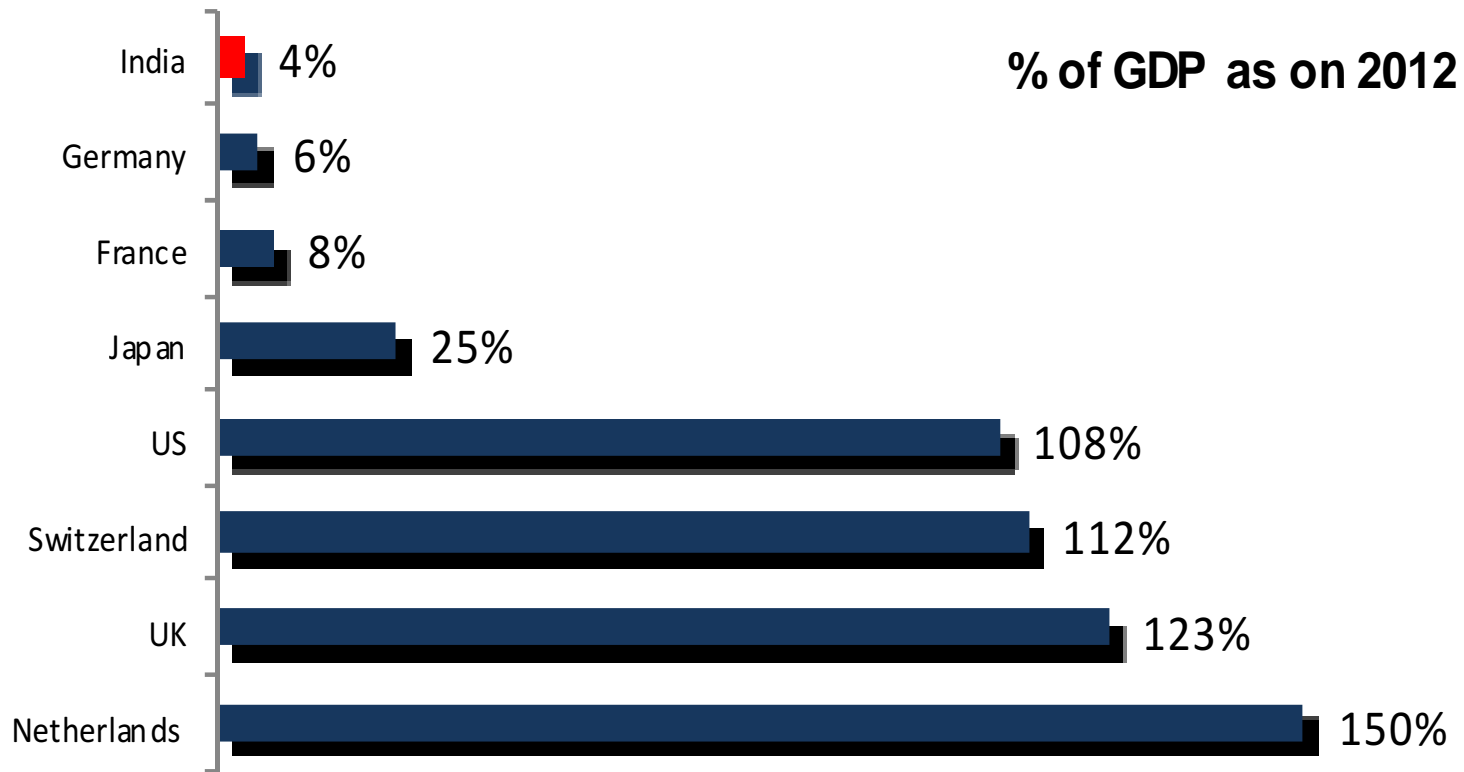


% of GDP as on 2012



Source: The City UK estimates based on UBS, OECD, SwissRe, Investment Company Institute data
GDP Source: India - RBI website; Other countries – Work Bank 2012

Pension Funds - % of GDP



Source: The City UK estimates based on UBS, OECD, SwissRe, Investment Company Institute data
GDP Source: India - RBI website; Other countries – Work Bank 2012



- Financial Sector

- **Current Issues**

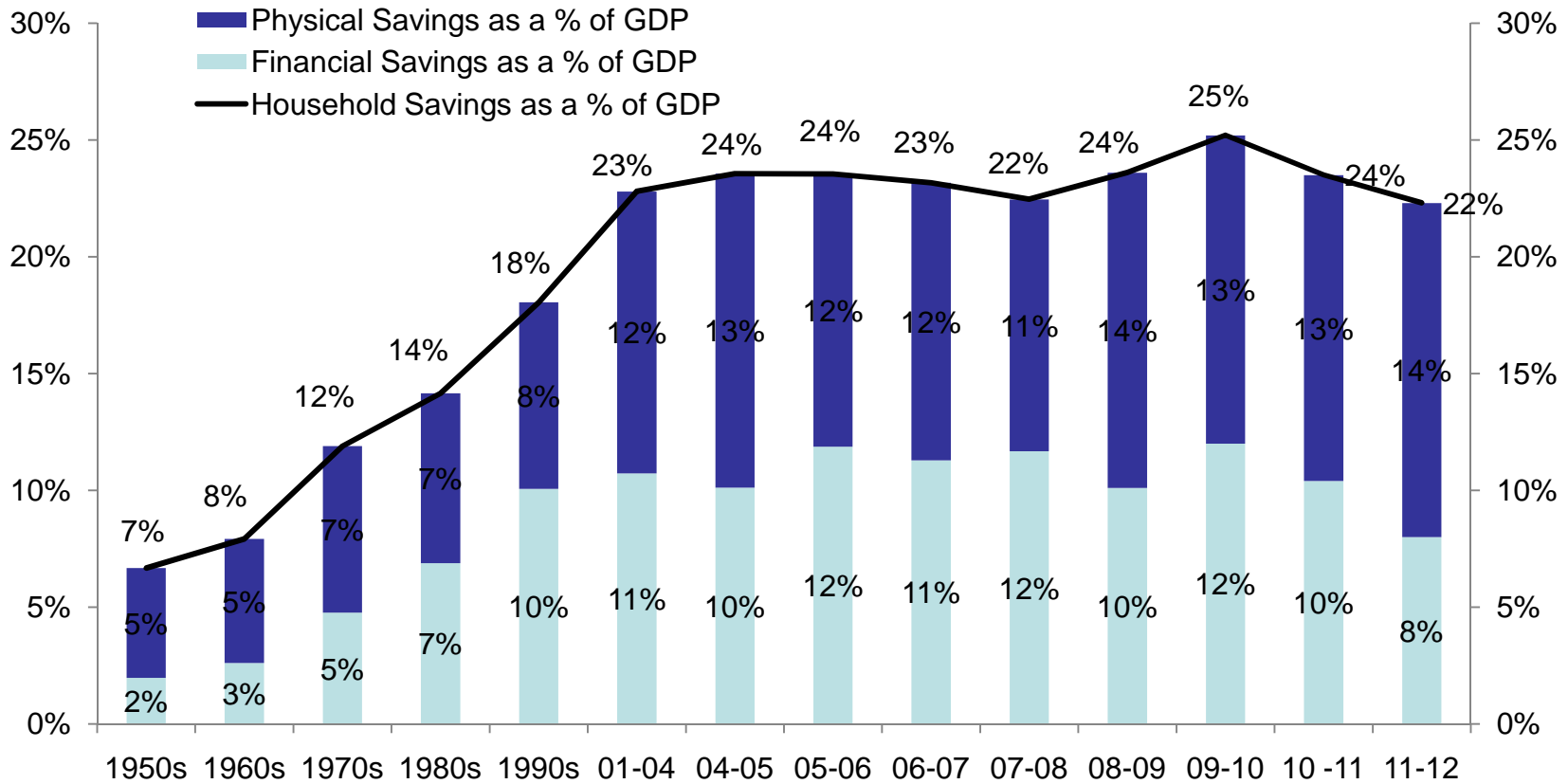
- Opportunities in Financial Services

Current Challenges

How do we convert a “Nation of Savers” into a “Nation of Investors” ?

- Falling Financial Savings
 - 7.5% of GDP takes us back to 80's

Fall in household savings



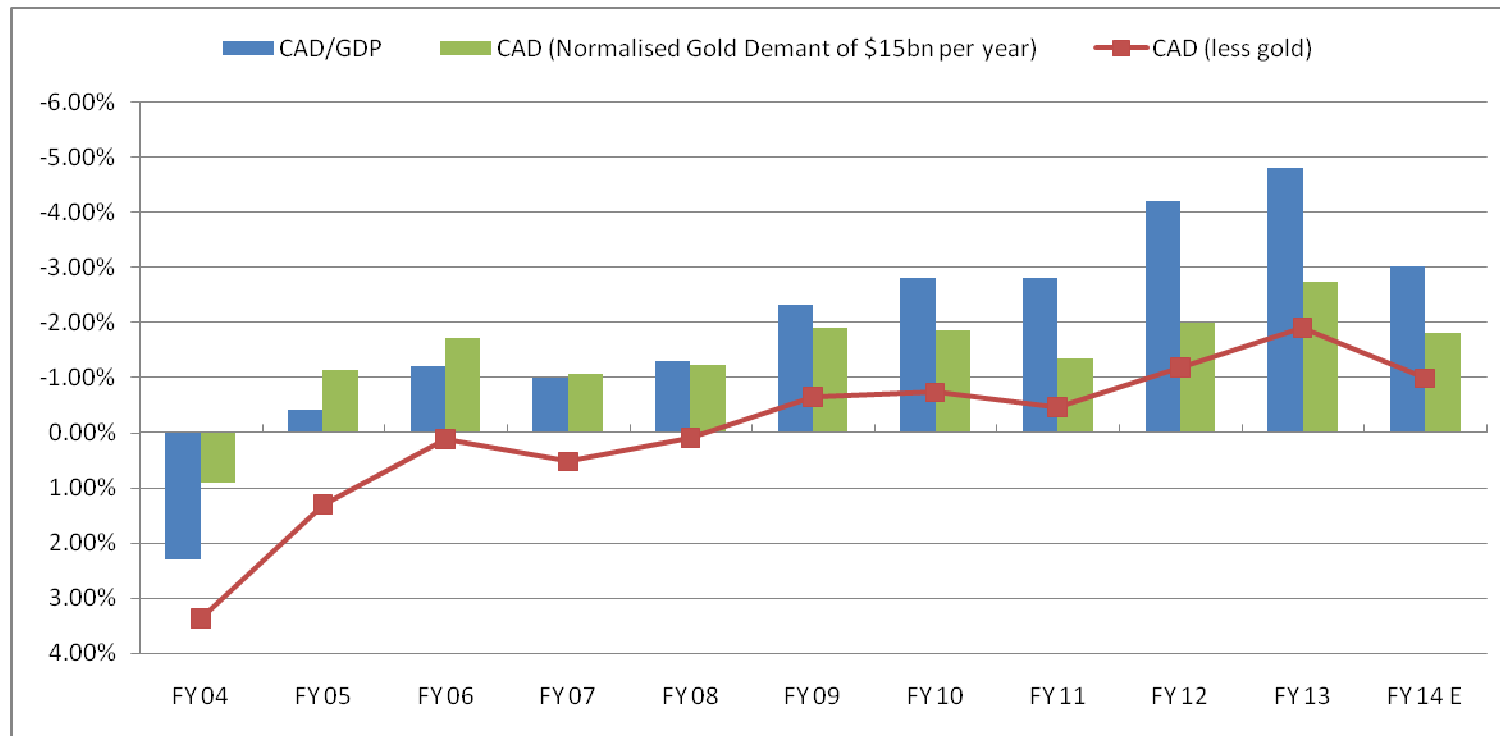
Current Challenges



How do we convert a “Nation of Savers” into a “Nation of Investors” ?

- Falling Financial Savings
 - 7.5% of GDP takes us back to 80's
 - Increase in gold imports and high real estate prices
 - Is low real interest rate hurting?

CAD & Gold



Higher gold demand explains more than half of CAD deterioration, average yearly gold imports before 2008 was around only \$15bn compared to \$50bn in current period.

High CAD lead to depreciation of the Rupee, putting upward pressure on inflation and interest rates

Current Challenges

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➤ Falling Financial Savings

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- Increase in gold imports and high real estate prices
- Is low real interest rate hurting?
- Low Tax-GDP ratio at 9.9% in 2011-12 (direct taxes 5.5%; indirect taxes 4.4%) – down from a peak of 11.9% in 2007-08

➤ Bringing retail investors back to the Market

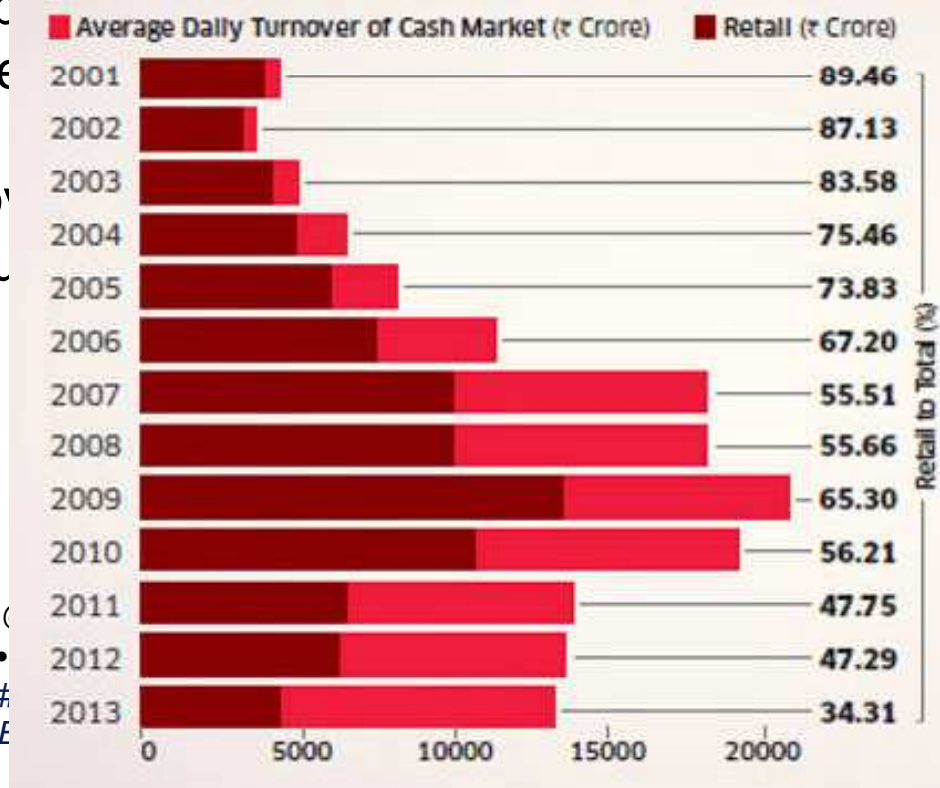
Retail participation in Stock Markets



- ❑ Retail participation at 10-year low
- ❑ Daily cash market average volume of retail investors is down to Rs 4,615 crore in 2013, lowest since 2003 and 66% down from peak of Rs 13,709 crore in 2009.

❑ Of a population of 1.1 billion, only 10 million invest in equity

❑ In Nov 2013, only 10 million retail accounts that have invested in equity

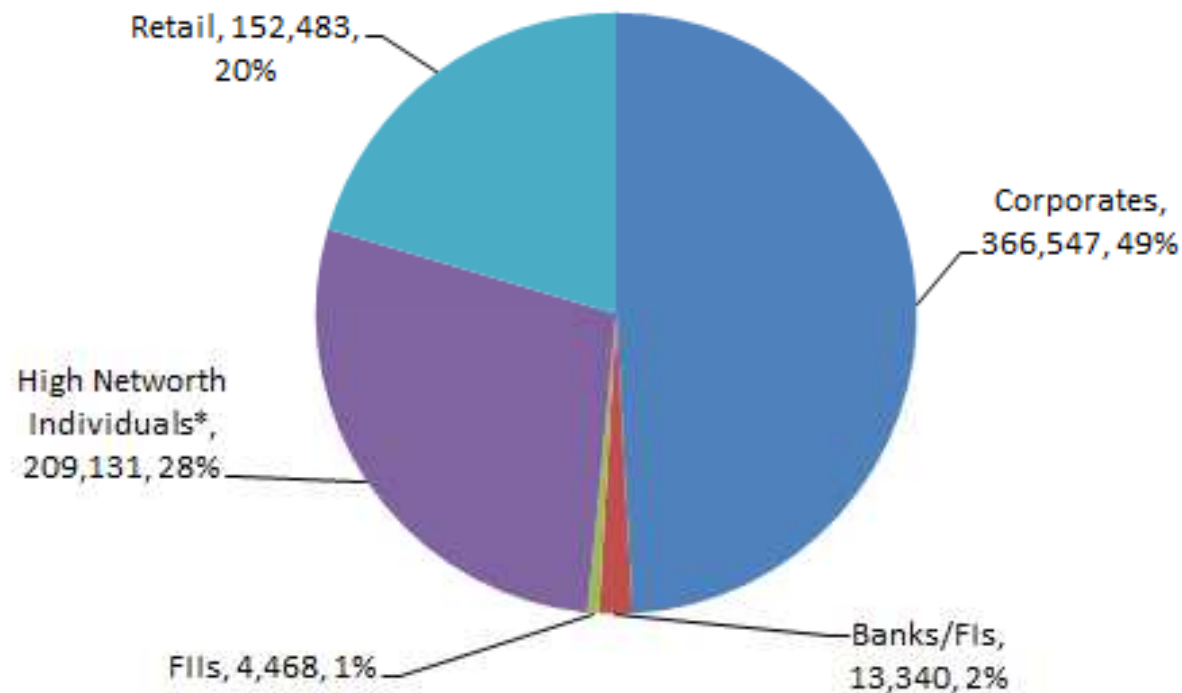


of the National Stock

Retail Participation in Mutual Fund



Rs. Crs



Retail participation (Including HNI) is at 48%



* HNI defined as individuals investing Rs 5 lakhs and above
MF - as on 30th Sep 2013, source AMFI

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 - Is low real interest rate hurting?
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- Bringing retail investors back to the Market
- Financial inclusion
- Importance of the financial intermediaries
 - Fair remuneration
- Well directed tax benefits
- How do we make the markets safer? – Corporate governance / fraud control

Distribution regulation

- There is already convergence at the Distribution level
 - Can regulators converge?

	Life Insurance (Private)	Asset Management (Retail)
Banks	39%	31%
IFA /Agent	44%	37%
CA / Brokers	13%	23%
Direct	4%	9%

Source :- IRDA Annual Report FY12 and Mckinsey – for AMC FY12

- Intermediary Regulation
 - Make the distributors responsible
 - The draft banc assurance regulations
 - SEBI (Investment Advisors) Regulations, 2013
- “One license” across all products for individual



- Long term savings have to be incentivized
- S.80C benefit
 - Differentiate only on the basis of time horizon of investment
 - Benefits need to be amended
- Parity in tax treatment
 - A pension product offered from any platform should be subject to the same taxation
- Direct Tax Code – an opportunity

Points to be resolved

- Financial Sector
- Current Issues
- Opportunities in Financial services

Opportunities for Chartered Accountants

- ❑ **Career Opportunities** – Research, Actuarial, Credit analysis, Analytics, and Outsourcing opportunities – significant demand in fields like Actuarial for finance professionals
- ❑ **Fund Management** in AMC / Insurance industries – offers exposure to operations of markets and opportunity to manage large corpus in dynamic market settings
- ❑ **Financial advisory services** – Portfolio management, Asset allocation & Financial planning
- ❑ **Distribution of financial products** like Insurance/MF – existing client base / looking for professional financial advice or investment guidance; ability to evaluate investment options on various parameters, to help clients in financial planning
- ❑ **Financial education** in itself is a vast area – huge demand for education on financial concepts to be conducted by professionals
- ❑ **Audit & Certification** - Increasing regulatory requirements lead to significant amount of audit & certification work e.g. in Life Insurance sector – beyond statutory and internal audits; there are assignments like certification of NAV, audit of rural/social obligations, Group credit term processes / claims settlement process etc.



Thank You